EMCO 1968 ANNUAL REPORT

EMCO for everything that flows . . . around the corner and around the world

Emco Limited principal divisions and subsidiaries

(wholly owned unless percentage indicated)

HEAD OFFICE DIVISION
LONDON, CANADA

GENERAL MANUFACTURING DIVISION

LONDON FACTORY, London, Ontario
(Stuart F. Smith, Vice-President) Manufacturer of plumbing, heating and industrial piping products for sale to wholesalers.

PLASTIC PRODUCTS, Brampton, Ontario
(Earl F. Lince, Manager)
Manufacturer of plastic plumbing and piping components.

CANADIAN CLYDE TUBE FORGINGS LIMITED, Toronto, Ontario
(Eldon T. McLeod, General Manager)
Distributor of steel welding fittings for industry.

WHOLESALE DISTRIBUTION DIVISION
Weston, Ontario, 28 Branches across Canada
(Ralph S. MacLean, Vice-President) Distributors of plumbing, heating and industrial piping supplies to mechanical contractors and industry.

ENGINEERED PRODUCTS DIVISION

EMCO-WHEATON LIMITED, Toronto, Ontario
(Richard E. Krengel, General Manager)
Manufacturer and distributor of fluid handling equipment for the petroleum and petro-chemical industries.

GAS PRODUCTS, Weston, Ontario
(John B. Kerr, General Manager) Distributor of specialty products for the natural and propane gas industries.

EMCO WHEATON INC., Union, New Jersey and Conneaut, Ohio, U.S.A.
(W. Jackson Schultz, President; L. M. Cuddy, Executive Director)
Manufacturer of fluid handling equipment for the petroleum and petro-chemical industries in the U.S.A.

EMCO WHEATON G.m.b.H., Kirchhain, Germany (76% owned)
(F. Pitton, General Manager)
Manufacturer of fluid handling equipment for the petroleum and petro-chemical industries in Western Europe.

EMCO WHEATON U.K. LIMITED, Margate, England
(John G. Beresford, Managing Director)
Manufacturer of fluid handling equipment for the petroleum and petro-chemical industries in the United Kingdom and for agents throughout the world.

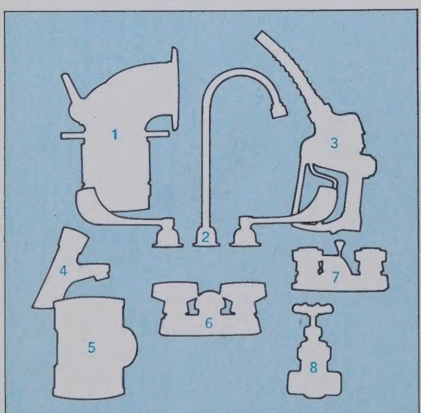
EMCO WHEATON S.A., Paris, France (85% owned)
(R. F. Howard, President)
Distributor of fluid handling equipment for the petroleum and petro-chemical industries in France.

EMCO WHEATON (JAPAN), LIMITED, Yokohama, Japan
(Vernon E. Vinen, General Manager)
Manufacturer of fluid handling equipment for the petroleum and petro-chemical industries in Japan and the Far East.

WHEATON AUSTRALIA PTY. LIMITED, Sydney and Melbourne, Australia (87% owned)
(Rex J. Sargeant, Managing Director)
Manufacturer of fluid handling equipment for the petroleum and petro-chemical industries in Australia.

PRODUCT DEVELOPMENT DIVISION

RESEARCH and DEVELOPMENT GROUP, Margate, England
(Dr. Keith Upton, General Manager)
Tests and reviews existing products and develops new products for Emco's petroleum and petro-chemical manufacturing subsidiaries.



1. Tank Truck Emergency Valve. **2.** Institutional Sink Faucet with Gooseneck Spout and Wrist Action Blade Handles. **3.** Automatic Service Station Nozzle. **4.** Time Delay Faucet. **5.** Plastic Fitting. **6.** Institutional Sink Faucet with Tee Handles and Rose Spray Spout. **7.** Classic Sink Faucet with Mechanical Drain. **8.** Bronze Gate Valve.

LITHOGRAPHED IN CANADA

1968 Annual Report

Financial Highlights

	1968	1967
Sales—increased 12.2%	$83,399,000	74,325,000
Earnings before extraordinary item—decreased 9.5%	1,482,000	1,637,000
Extraordinary item	—	84,000
Net earnings — decreased 13.9%	$ 1,482,000	1,721,000
Net earnings per common share—decreased 13.3%	$ 1.17	1.35
Cash earnings per common share—increased 1.5%	2.01	1.98
Dividends per common share—increased 10.3%	.53¾	.48¾
Capital expenditures	1,797,000	2,402,000
Net worth per common share	12.42	11.63
Return on shareholders' equity (January 1)	10.0%	11.7%

Contents

EMCO LIMITED
Box 5300,
London 12, Canada.

Subsidiaries in the United States, Great Britain, Germany, France, Australia and Japan.

Directors

John W. Adams, F.C.A., London, Ontario
Vice-President, Finance & Treasurer, Emco Limited

C. Norman Chapman, London, Ontario
Executive Vice-President and Assistant General Manager, Emco Limited

W. Harold Evans, Toronto, Ontario
Director, Honeywell Controls Limited

Hon. Louis P. Gelinas, Montreal, Quebec
Consultant to Geoffrion, Robert & Gelinas, Co.

Charles H. Ivey, London, Ontario
Director, Emco Limited

C. Robert Ivey, Toronto, Ontario
President, Multi-Grind Limited

Peter J. Ivey, London, Ontario
President and General Manager, Emco Limited

Peter N. Jaffray, Toronto, Ontario
Director, Dominion Securities Corporation Limited

Frederick W. P. Jones, London, Ontario
Professor, School of Business Administration, University of Western Ontario

William G. Poy, New York, N.Y.
Branch Manager, H. Hentz & Co.

W. Jackson Schultz, Short Hills, New Jersey
President, Emco Wheaton Inc.

John H. Stevens, London, Ontario
Chairman of the Board, Emco Limited

David B. Weldon, London, Ontario
President, Midland-Osler Securities Limited

Robert F. Wheaton, Short Hills, New Jersey
Vice-President, Emco Wheaton Inc.

Officers

John H. Stevens
Chairman of the Board

Peter J. Ivey
President and General Manager

C. Norman Chapman
Executive Vice-President and Assistant General Manager

John W. Adams, F.C.A.
Vice-President, Finance and Treasurer

Stuart F. Smith
Vice-President, Manufacturing

Ralph S. MacLean
Vice-President, Wholesale Division

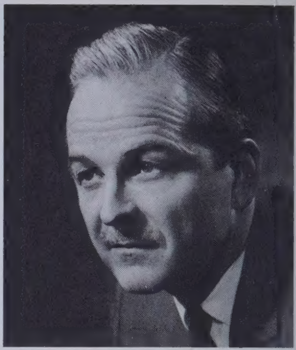
A. Robert Martin, C.A.
Comptroller and Secretary

William M. Eager
Assistant Treasurer

TRANSFER AGENT & REGISTRAR
Royal Trust Company
Toronto, Montreal and Winnipeg

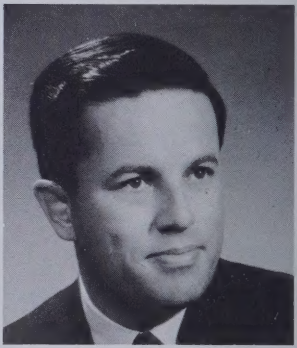
AUDITORS
Peat, Marwick, Mitchell & Co.
London, Canada

JOHN H. STEVENS
Chairman of the Board

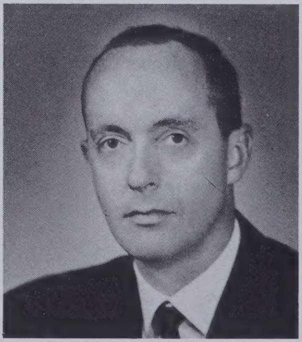


PETER J. IVEY
President and General Manager

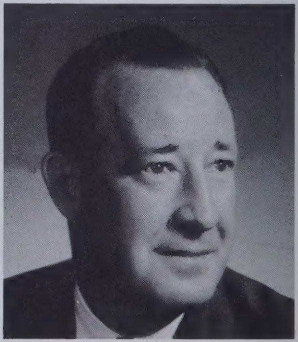
C. NORMAN CHAPMAN
Executive Vice-President and Assistant General Manager



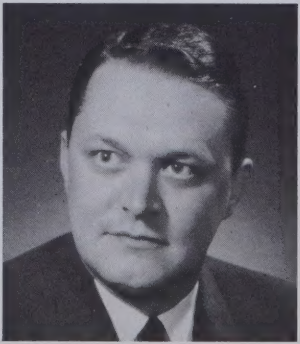
JOHN W. ADAMS, F.C.A.
Vice-President, Finance and Treasurer



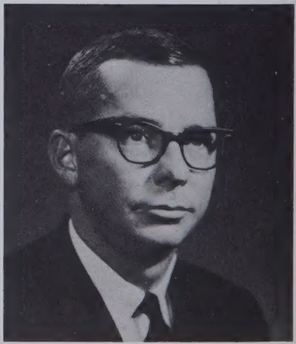
STUART F. SMITH
Vice-President, Manufacturing



RALPH S. MacLEAN
Vice-President, Wholesale Division



A. ROBERT MARTIN, C.A.
Comptroller and Secretary



WILLIAM M. EAGER
Assistant Treasurer

To Emco Shareholders

The results of the Company's 1968 operations are disappointing to all concerned. The problems encountered during the year were many and varied, with the result that earnings were less than anticipated. They have, however, been identified, thoroughly assessed, and intensive programmes initiated to solve them. Specific comments on operations of our three main divisions are included further in this report.

• A sales increase of 12% to $83,399,000 was accompanied by a reduction in net income from operations of 10% to $1,482,000.

• Comparisons of 1967-68 total earnings in dollars and per common share, with 1967 figures re-stated, are as follows:

	Year Ended December 31	
	1968	1967 (Restated)
Income before extraordinary item	$1,482,000	1,637,000
Extraordinary item		
Net gain on sterling devaluation	—	84,000
Net income for the year	$1,482,000	1,721,000
Per share of common stock:		
Income before extraordinary item	$ 1.17	1.28
Extraordinary item	—	.07
	$ 1.17	1.35

• Cash income increased to $2,534,000 or $2.01 per share (after preference dividends) compared to $2,506,000 or $1.98 per share in 1967. While net income per share was down for 1968, cash income per share increased as a result of heavier depreciation charges for the year.

For easier internal and external identification of the Company's varied operations, some changes in division titles have been made. The WHOLESALE DISTRIBUTION DIVISION consists of 28 branch warehouses across Canada, and is the prime distribution arm of the Company's Canadian-manufactured product and the products of some 1,500 suppliers related to the plumbing/heating and industrial piping industry. The GENERAL MANUFACTURING DIVISION comprises three Canadian plants in London, Brampton and Toronto, producing some 4,000 items in non-ferrous metals and plastics, and a subsidiary — Canadian Clyde Tube Forgings Limited — producing steel welding fittings and flanges. The ENGINEERED PRODUCTS DIVISION comprises six subsidiary companies outside of Canada and one Canadian plant producing and marketing products for the control and transfer of a variety of "hard to handle" liquids and gases under the trade-mark of EMCO WHEATON.

WHOLESALE DISTRIBUTION DIVISION

Compared with the industry's statistics compiled by the Canadian Institute of Plumbing and Heating, Emco wholesaling operations have been consistently above the average in terms of efficient operation. 1968 industry statistics are not yet available, so accurate comparisons are not possible. Sixteen branches showed improved net earnings over 1967, while the remainder showed somewhat less net profit. In the division as a whole, the gross profit increased fractionally as a percentage of sales. Net profits were reduced by increased operating costs, primarily related to wages and salaries, which are a major portion of total costs. Severe competitive pressure remains the keynote of the industry, despite an increased market — indicated by 197,000 housing starts in 1968 — which increased sales by 10.3%.

Extensive efforts have been made to improve material handling efficiency. A much broader emphasis on the concepts of management by objective has been initiated in each branch and throughout the Company. We believe the impact of such concepts can be particularly beneficial to this widespread division, because of the nature of its operation. The 28 branch managers have relatively wide scope in operational decisions, and have a necessarily high percentage of operating costs in salaries and wages. They can materially reduce such costs through increasing individual efficiency, by encouraging greater employee involvement and understanding of branch and corporate objectives.

GENERAL MANUFACTURING DIVISION

Recovery from a lengthy strike in mid-1967 to an adequate return on investment position is a slow process, particularly in a period of accelerated inflation and rising costs. A sincere effort by all levels of management in this division to closely examine, discuss and resolve the individual and collective problems of our hourly paid employees, related to our industrial methods, has, we believe, been reasonably successful. Our union relations have improved. Differences, of course, still exist, but appear to be handled

more rapidly and with less friction. Some improvement in productivity has been achieved, and there is a reasonable expectation for this trend to continue.

Our contract with United Steelworkers is due for renegotiation in the second quarter of 1970. The conflicting economic pressures motivating management and the union in these discussions will be no less than is being experienced throughout industry. However, we are optimistic about the possibility of discussions in an environment with considerably less static.

The proportion of metal to plastic products produced altered somewhat. While metal tonnage remained constant, plastics increased sharply. Proposals to increase metal production through the introduction of a new range of products, and to invade certain markets for our products heretofore by-passed, are under consideration. A major capital expenditure is planned in 1969 and 1970 to increase plastics capacity. The price competition in all plumbing products is sharp, despite increased selling prices, and will probably remain so, in spite of an optimistic forecast of increased housing starts for 1969. Unfortunately, nearly all price increases are offset by increased costs of direct and indirect labour, services and materials.

ENGINEERED PRODUCTS DIVISION

The difficulties in this division centre around greatly increased engineering development costs of much more complex equipment required by a still expanding market for marine loaders. This has affected the earnings of our U.K. and German subsidiaries. These are essentially one-time expenditures and will yield an adequate return in the future. While they will continue into this year and next, some inherent benefits should be felt in 1969. Demand for our standard product appears to be holding up well in most markets, and some new ones should receive good market acceptance.

In the U.S., the integration of Wheaton, Inc., acquired in December 1967, and the Buckeye Division into Emco Wheaton Inc., has been accompanied by some costly but necessary adjustments that were foreseen. Most are behind us now, and the 1969 forecast is optimistic. Several new products, including a greatly improved automatic service station nozzle, have been added to the product line.

To some extent the same situation exists in Australia, where the major challenges of integrating two companies are now behind us. The losses in Australia in 1967 were replaced by a modest profit in 1968. During the year Emco increased its equity in the Australian subsidiary to 87% through the purchase of common shares owned by one of the senior employees who has retired.

In Japan our 1968 forecasts were exceeded by a considerable margin, and the company made a good return on investment. A good corporate relationship to the Japanese economy has been established, a new plant constructed and operating, and we believe 1969 will produce similar satisfactory results in the expanding Japanese economy. Your company's equity in Emco Wheaton (Japan) Limited is now 100% as a result of the purchase of 20% of the common shares from our Japanese partner who remains an important distributor and sales agent for our products.

GENERAL

The share purchase plan for employees of Emco Limited and subsidiaries, approved by shareholders at the last Annual Meeting, was subscribed to by 429 employees in Canada, Germany, Australia and Japan. This amounts to some 30% of all employees eligible. Unfortunately, due to S.E.C. requirements in the U.S.A., for an audited prospectus for such an offering, and sterling currency restrictions in the U.K., employees in these two countries could not participate. The total common shares subscribed to amounted to 19,110 shares.

BOARD OF DIRECTORS

At the last Annual Meeting of Shareholders, Mr. William G. Poy of New York City was elected to our Board of Directors. His background and experience, particularly in the markets of the Orient, will provide a valuable contribution to your Board.

OUTLOOK FOR 1969

Your management is very much aware of the need to accurately and continuously assess the effect of rapid change in the technological, economic and social environment. Changes have taken place in the structure of our competition, channels of distribution, and customer identity. How we should adapt to meet the challenges presented is currently under active review.

Forecasts of over 200,000 housing unit starts in 1969 indicate an active year for our Canadian divisions. Inflation and high cost money present real problems to profitable operations. Internally, programmes to reduce costs and increase profitable sales are in operation.

The subsidiaries of the Engineered Products Division have generally forecast improved earnings, that should be obtainable. The past two years have been difficult ones of adjustment for some divisions. If the construction industry in major Canadian markets can avoid further major strikes, prospects for improved earnings in 1969 are good, and a resumption of our 7-year pattern of annual increase in earnings which began in 1960, is possible.

We acknowledge with appreciation, the efforts of nearly 2000 employees of Emco and its subsidiaries towards attainment of our immediate and long term objectives during the year.

On behalf of the Board of Directors

J. R. Stevens
Chairman

President

London, Canada, March 12, 1969

EMCO LIMITED AND SUBSIDIARIES

Consolidated Statement of Earnings

Year ended December 31, 1968 (with comparative figures for 1967)

	1968	1967
Sales, less sales taxes	$83,398,575	74,324,738
Operating profit after minority shareholders' interest but before the undernoted items	5,010,831	4,737,953
Income from marketable securities	20,856	28,899
	5,031,687	4,766,852
Deduct:		
Depreciation	1,018,072	785,059
Interest on bank and other short-term advances	378,587	208,634
Interest on long-term debt	665,907	479,186
	2,062,566	1,472,879
Earnings before taxes on income	2,969,121	3,293,973
Taxes on income—Note (3):		
Current	1,453,000	1,657,000
Deferred	34,000	—
	1,487,000	1,657,000
Earnings before extraordinary item	1,482,121	1,636,973
Extraordinary item—net gain on sterling devaluation	—	84,137
Net earnings for the year	$ 1,482,121	1,721,110
Net earnings per common share, based on shares outstanding at December 31 and after preference dividends:		
Before extraordinary item	$ 1.17	1.28
Extraordinary item	—	.07
Net earnings	$ 1.17	1.35

See accompanying notes to financial statements.

Consolidated Statement of Retained Earnings

Year ended December 31, 1968 (with comparative figures for 1967)

	1968	1967
Amount at beginning of year	$14,133,861	14,186,016
Add:		
Net earnings for the year	1,482,121	1,721,110
Adjustment of prior years' taxes on income—Note (3)	200,000	—
	1,682,121	1,721,110
	15,815,982	15,907,126
Deduct:		
Dividends:		
Preference	24,898	34,704
Common	686,486	623,381
Excess of purchase price of subsidiary companies acquired during the year over value of underlying net tangible assets	—	1,115,180
	711,384	1,773,265
Amount at end of year	$15,104,598	14,133,861

See accompanying notes to financial statements.

ASSETS

CURRENT ASSETS:	1968	1967
Cash	$ 295,014	372,730
Marketable securities, at cost (quoted value 1968 $484,214; 1967 $739,006)	500,550	743,440
Trade accounts receivable, less allowance for doubtful accounts (1968 $612,720; 1967 $464,290)	11,634,024	10,745,940
Inventories at the lower of cost or net realizable value	21,172,641	18,890,396
Prepaid expenses	430,714	358,661
Total current assets	34,032,943	31,111,167
LONG-TERM RECEIVABLES	243,047	344,429
FIXED ASSETS, AT COST, LESS DEPRECIATION—Note (2)	8,984,792	8,206,051
DEFERRED INCOME TAXES—Note (3)	179,388	—
	$43,440,170	39,661,647

See accompanying notes to financial statements.

on behalf of the Board: P. J. IVEY, Director; J. W. ADAMS, Director.

Consolidated Balance Sheet December 31, 1968 (with comparative figures for 1967)

LIABILITIES

	1968	1967
CURRENT LIABILITIES:		
Due to banks	$ 7,048,925	1,823,537
Accounts payable and accrued expenses	7,054,712	5,727,479
Amount payable on acquisition of subsidiary	—	2,511,000
Dividends payable	181,949	170,599
Current portion of long-term debt	190,544	674,863
Income and other taxes payable	1,526,196	1,727,485
Total current liabilities	16,002,326	12,634,963
LONG-TERM DEBT—Note (4)	11,177,140	11,435,369
MINORITY INTEREST IN SUBSIDIARY COMPANIES	67,623	105,361
SHAREHOLDERS' EQUITY:		
Capital stock—Note (5)	1,088,483	1,352,093
Retained earnings	15,104,598	14,133,861
Total shareholders' equity	16,193,081	15,485,954
	$43,440,170	39,661,647

Auditors' Report

We have examined the consolidated balance sheet of Emco Limited and subsidiaries as of December 31, 1968 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in basis of accounting for income taxes as explained in Note (3) to the financial statements, have been applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants.

London, Canada,
February 26, 1969.

EMCO LIMITED AND SUBSIDIARIES

Consolidated Statement of Source and Application of Funds

Year ended December 31, 1968 (with comparative figures for 1967)

	1968	1967
FUNDS PROVIDED:		
Net earnings for the year	$ 1,482,121	1,721,110
Add:		
Depreciation	1,018,072	785,059
Deferred income taxes	34,000	—
Funds provided from operations	2,534,193	2,506,169
Issue of common shares	33,000	88,072
Long-term debt, acquired companies	—	3,866,932
Total funds provided	2,567,193	6,461,173
FUNDS USED:		
Fixed asset additions, net (includes fixed assets of acquired companies in 1967)	1,796,813	2,402,259
Reduction in long-term debt	258,229	947,743
Redemption of second preference shares	296,610	357,090
Dividends on second preference shares	24,898	34,704
Dividends on common shares	686,486	623,381
Reclassification of deferred income taxes	13,388	—
Excess of purchase price of subsidiary companies acquired during the year over value of underlying net tangible assets	—	1,115,180
Decrease in minority interest in subsidiary companies	37,738	370,894
Increase (decrease) in long-term receivables	(101,382)	87,487
Total funds used	3,012,780	5,938,738
Increase (decrease) in working capital	$ (445,587)	522,435
Working capital at end of year	$18,030,617	18,476,204

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 1968

1. The accompanying financial statements consolidate the accounts of all subsidiary companies and all material inter-company balances and transactions have been eliminated.

The accounts of the subsidiary companies located outside Canada have been converted to Canadian dollars as follows: current assets, current liabilities and long-term debt—at rates current at the year end; fixed assets—at rates current on dates of acquisition; accumulated depreciation and related provisions against income—on the basis of dollar value of related assets; and operating income and other expenses—at average rates for the year.

2. The details of fixed assets, at cost, less depreciation at December 31, are as follows:

	1968	1967
Buildings and roadways	$ 8,417,218	7,778,801
Machinery and equipment	7,505,404	6,614,754
	15,922,622	14,393,555
Less accumulated depreciation	7,781,122	6,972,165
	8,141,500	7,421,390
Land	843,292	784,661
Fixed assets, less depreciation	$ 8,984,792	8,206,051

3. During the year the company adopted the full tax allocation basis of accounting for taxes on income. Had the company followed the full tax allocation basis in prior years, the accumulated income taxes charged against earnings in those years would have been reduced by approximately $200,000. This amount has been credited to retained earnings in 1968 and set up as deferred income taxes on the accompanying balance sheet. In addition, deferred income taxes in the net amount of $13,388, which in prior years was included with income and other taxes payable, have been reclassified as deferred income taxes on the accompanying balance sheet.

4. The particulars of the long-term indebtedness are as follows:

	1968	1967
EMCO LIMITED:		
5¼% sinking fund debentures, due October 15, 1973	$ 2,078,000	2,279,500
5¾% sinking fund debentures, due June 15, 1985	5,467,000	5,467,000
UNITED STATES SUBSIDIARIES:		
Note payable, due December 1, 1970 $3,100,000 U.S.; interest at ¾% above the New York prime rate which was 6¾% at December 31, 1968	3,323,200	3,348,000
6% mortgage note payable in monthly instalments of principal and interest of $3,583 U.S., due August 1, 1986	499,484	518,932
6¾% note payable in monthly instalments of $5,000 U.S., due July 2, 1968	—	496,800
	11,367,684	12,110,232
Less amounts due within one year included with current liabilities	190,544	674,863
	$11,177,140	11,435,369

At December 31, 1968 all of the sinking fund obligations for the debentures to that date had been met and the principal amount of debentures tendered to the trustee in respect of sinking fund requirements for 1969 to 1972 are as follows:

	5¼% Debentures	5¾% Debentures
Principal amount tendered to the trustee	$ 38,000	288,000
Sinking fund requirements		
1969	$213,000	133,000
1970	223,000	141,000
1971	234,000	149,000
1972	246,000	158,000

5. Capital stock:

(a) The authorized and issued capital at December 31, 1968 is as follows:

	Number of Shares	
	Authorized	Issued
First preference shares with a par value of $100 each	150,000	—
3% cumulative redeemable second preference shares with a par value of $10 each	129,763	68,163
Common shares without nominal or par value	2,200,000	1,248,900

The outstanding share capital is as follows:

	1968	1967
First preference shares	$ —	—
3% second preference shares	681,630	978,240
Common shares	406,853	373,853
	$1,088,483	1,352,093

(b) The provisions with respect to the 3% cumulative redeemable second preference shares include a requirement that the company shall apply to the redemption of preference shares, before July 1 in each year, a sum equal to 25% of the consolidated net earnings of the company (as defined in such provisions) in excess of $500,000 for the immediately preceding fiscal year of the company after deducting from the said consolidated net earnings dividends for such fiscal year on the preference shares.

Pursuant to this requirement 29,661 preference shares were redeemed at par in 1968, an aggregate amount of $296,610 to satisfy the 1967 requirement. To satisfy the 1968 requirement, $239,310 must be applied to the redemption of preference shares on or before July 1, 1969.

(c) A share option plan was established in 1960 for certain executives whereby 60,000 of the company's authorized and unissued common shares were reserved for issue under the plan. Since the inception of the plan, options have been granted for 59,000 shares and 47,400 shares have been taken up and issued under the plan. The balance of the options may be exercised at various dates up to March 31, 1976 at the following prices per share:

4,100 shares at $14.37 per share
2,500 shares at 15.31 per share
2,500 shares at 16.50 per share
2,500 shares at 21.85 per share

In addition, 15,000 authorized and unissued common shares have been reserved for issue at any time prior to December 31, 1972 for share options granted by Wheaton, Inc. (a subsidiary company) during 1967 to certain officers of Wheaton, Inc. at $16.50 per share.

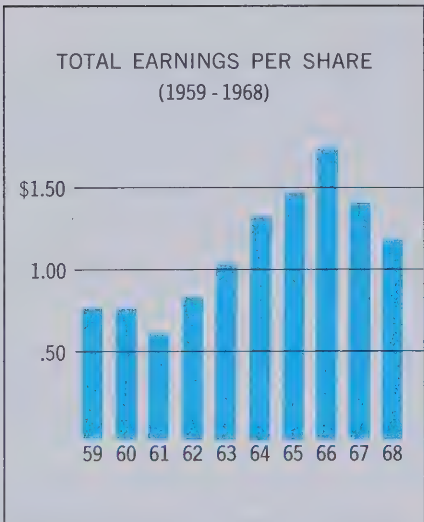
During the year, to satisfy options exercised, Wheaton, Inc. subscribed and paid for 1,500 shares at market value, an aggregate consideration of $33,000 and directed that the shares be issued to the individual officers.

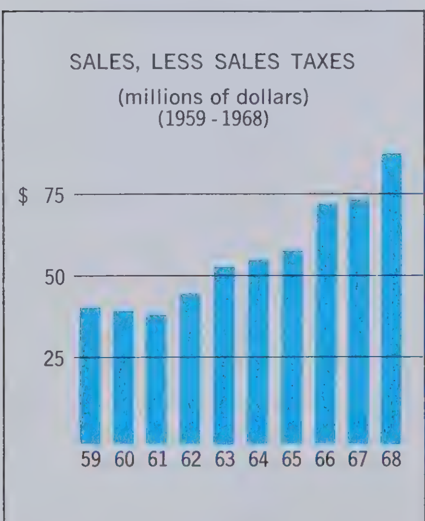
(d) During the year, a share purchase plan was approved whereby the employees of the company and its subsidiaries (excluding officers and directors of Emco Limited) may purchase common shares of the company, and 50,000 authorized and unissued common shares have been reserved for this purpose. Of these, 25,000 shares have been set aside for issue at $17.35 per share to be fully paid for by way of payroll deductions over the two year period ending June 30, 1970. At December 31, 1968, $77,459 had been received (included in "accounts payable and accrued charges" in the accompanying balance sheet) to be applied to the purchase of 19,110 shares for issue June 30, 1970.

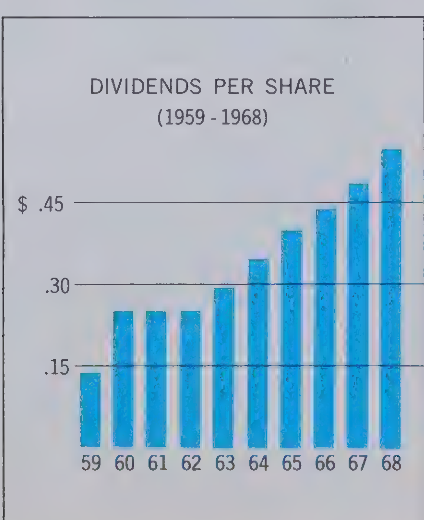
(e) The trust deeds relating to the debentures both contain provisions whereby dividends may not be declared or paid, other than stock dividends or cumulative preference dividends, and the company may not effect any reduction to its capital stock which would reduce consolidated net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1968, the consolidated net current assets and shareholders' equity (as so defined) were substantially in excess of the minimum levels.

6. The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers was $389,435 for the year ended December 31, 1968.

7. Pension costs are charged against earnings in the year of payment. There are no significant unfunded past service costs at December 31, 1968.







Ten Year Financial Summary

SALES, LESS SALES TAXES ......

SOURCE AND APPLICATION OF FUNDS

FUNDS PROVIDED

Net earnings ......
Depreciation charged ......
Deferred income taxes ......

Cash earnings ......
Proceeds from sale of real estate ..
Issue of common shares ......
Minority interests ......
Issue of 5¾% debentures ......
Note payable ......
Long-term debt, acquired compani

FUNDS USED

Capital expenditures — net ......
Redemption of second preference shares ......
Dividends — second preference ......
— common ......
Reduction in long-term debt ......
Investment in other companies ......
Reclassification of deferred income taxes ......
Excess of purchase price of subsi iary companies acquired duri the year over value of underlyi net tangible assets ......
Other — net ......

Increase (decrease) in working capital ......

COMMON SHARE RESULTS

Net earnings per share ......
Extraordinary item ......
Total earnings per share outstandi at December 31 ......

Cash earnings per share ......
Dividends paid per share ......
Net worth at December 31 ......
Return on common shareholders' equity at beginning of the year ..

CONDENSED BALANCE SHEET

Current assets ......
Current liabilities ......

Working capital ......
Long-term receivables ......
Fixed assets — net ......
Deferred income taxes ......

Long-term debt ......
Minority interests ......
Second preference share capital ......
Common share capital ......
Retained earnings ......

	1967	1966	1965	1964	1963	1962	1961	1960	1959
	74,325	72,331	60,692	54,280	50,988	42,664	36,890	38,877	40,329
	1,721	1,973	1,746	1,494	1,304	940	781	767	906
	785	734	657	605	545	495	468	459	472
	—	—	—	—	—	—	—	—	—
	2,506	2,707	2,403	2,099	1,849	1,435	1,249	1,226	1,378
	—	295	287	200	—	567	—	738	—
	88	87	29	15	53	—	2	—	—
	(371)	69	363	16	(5)	23	10	—	—
	—	—	6,000	—	—	—	—	—	—
	—	—	561	—	—	—	—	—	—
	3,867	—	—	—	—	—	—	—	—
	6,090	3,158	9,643	2,330	1,897	2,025	1,261	1,964	1,378
	2,402	2,006	778	1,277	745	738	855	780	1,138
	357	298	234	185	94	54	50	94	—
	35	45	53	59	63	65	67	69	35
	623	554	488	425	362	300	300	225	225
	948	561	184	220	113	166	30	3	400
	(54)	(84)	(72)	4	192	44	—	—	—
	—	—	—	—	—	—	—	—	—
	1,115	—	—	—	—	—	—	—	—
	142	77	(67)	95	(19)	107	19	(29)	21
	5,568	3,457	1,598	2,265	1,550	1,474	1,321	1,142	1,819
	522	(299)	8,045	65	347	551	(60)	822	(441)
$ 1.17	1.28	1.56	1.39	1.18	1.02	.73	.60	.58	.73
	.07	.15	.08	.13	—	.09	—	.16	—
$ 1.17	1.35	1.71	1.47	1.31	1.02	.82	.60	.74	.73
$ 2.01	1.98	2.16	1.92	1.68	1.47	1.14	.98	.96	1.12
	.48¾	.43¾	.38¾	.33¾	.28¾	.25	.25	.25	.12½
	11.63	11.72	10.50	9.51	8.56	7.87	7.30	6.96	6.39
10.0	11.7	15.0	14.6	13.8	13.1	10.0	8.6	9.1	12.2
	31,111	28,702	26,335	20,428	18,925	16,925	14,835	13,141	13,585
	12,635	10,748	8,082	10,220	8,782	7,129	5,590	3,836	5,102
	18,476	17,954	18,253	10,208	10,143	9,796	9,245	9,305	8,483
	344	257	264	488	405	220	118	105	127
	8,206	6,589	5,419	5,481	4,849	4,685	4,868	4,481	4,704
	—	—	—	—	—	—	—	—	—
	27,026	24,800	23,936	16,177	15,397	14,701	14,231	13,891	13,314
	11,435	8,516	9,077	2,708	2,943	3,081	3,261	3,297	3,293
	105	477	407	44	28	33	10	—	—
	978	1,335	1,634	1,868	2,053	2,147	2,200	2,250	2,344
	374	286	199	169	155	102	102	100	100
	14,134	14,186	12,619	11,388	10,218	9,338	8,658	8,244	7,577
	27,026	24,800	23,936	16,177	15,397	14,701	14,231	13,891	13,314

Note: Amounts shown above are thousands of dollars with the exception of data under the heading Common Share Results.

Financial Review

SALES, EARNINGS AND CASH FLOW

Sales in Canada increased abou 10% while sales of our internationa subsidiaries increased by 26%.

Net earnings were as follows:

	Canada	Int'l
1968	$1,120,000	$362,00(
Percent of total	76%	24%
1967	1,178,458	458,51
Percent of total	72%	28%

Cash income (earnings before de preciation and after preference divi dends) per common share was $2.01 per share compared with $1.98 ir 1967.

Dividends were increased to ar annual rate of 55 cents per share ir March, 1968, an increase of 10%. Al international subsidiaries, except the French subsidiary, operated at a profit during 1968, however, the U.K and German subsidiaries reportec decreased earnings, mainly as a re sult of heavy charges for the engi neering development of a new line of marine loaders.

As of January 3, 1969, our two sub- sidiaries in the United States were merged and the company is now called Emco Wheaton Inc. The names of our other international subsidi- aries were changed during 1968 to reflect the significance of the integra- tion of Wheaton, Inc. in our opera- tions.

WORKING CAPITAL, RECEIVABLES AND INVENTORIES

Working capital decreased by $445,587 during the year and was $18,030,617 at the year end. The work- ing capital ratio decreased to 2.1:1 compared to 2.4:1 at December 31 last year.

Possible losses through uncollect- ible accounts receivable have been fully provided for. The allowance for doubtful accounts increased to $612,- 720 (from $464,290) during the year.

The increase in receivables outstanding at the year end was slightly less than the increase in gross sales. Bad debt losses during the year were lower than the industry average.

Inventories increased 12% at December 31 when compared to the previous year. In accordance with our usual practice, full provision has been made for any losses as a result of slow moving and obsolete items. About 75% of the year end inventories are finished goods.

CAPITAL EXPENDITURES, DEPRECIATION AND TOOLING

Net capital expenditures during the year were $1.8 million. Depreciation and amortization of major tooling amounted to $1.0 million compared to $ .8 million in 1967. Generally speaking, depreciation is provided on a straight line basis to write off the cost of buildings over 20 years and machinery and equipment over 10 years.

Tools, dies, patterns and moulds are written off in the year of acquisition, except for major tooling for new products which is amortized over a 5-year period.

DEFERRED INCOME TAXES

As explained in note (3) to the financial statements, the company adopted the now generally accepted principle of income tax allocation. Although certain subsidiary companies had a deferred liability for income taxes, the amounts were not significant. In the parent company, capital cost allowance claimed for income tax purposes have been less than depreciation amounts charged in our accounts for a number of years and thus a deferred tax asset results as at December 31, 1968. This indicates that the amounts provided for income taxes in prior years on a consolidated basis were about $200,000 more than would have been provided had the full allocation basis been followed in those years.

Ten Year Financial Summary

SALES, LESS SALES TAXES

SOURCE AND APPLICATION OF FUNDS

FUNDS PROVIDED

Net earnings
Depreciation charged
Deferred income taxes

Cash earnings
Proceeds from sale of real estate
Issue of common shares
Minority interests
Issue of 5¾% debentures
Note payable
Long-term debt, acquired companie

FUNDS USED

Capital expenditures — net
Redemption of second preference shares
Dividends — second preference
— common
Reduction in long-term debt
Investment in other companies
Reclassification of deferred income taxes
Excess of purchase price of subsidiary companies acquired durin the year over value of underlyin net tangible assets
Other — net

Increase (decrease) in working capital

COMMON SHARE RESULTS

Net earnings per share
Extraordinary item
Total earnings per share outstandin at December 31

Cash earnings per share
Dividends paid per share
Net worth at December 31
Return on common shareholders' equity at beginning of the year

CONDENSED BALANCE SHEET

Current assets
Current liabilities

Working capital
Long-term receivables
Fixed assets — net
Deferred income taxes

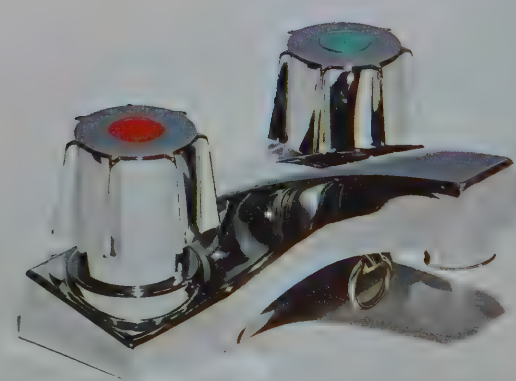
Long-term debt
Minority interests
Second preference share capital
Common share capital
Retained earnings

For everything that flows...around the corner and around the world

...with new products

Over sixty years of product design and manufacturing experience has preceded the development of Emco's complete line of institutional fixture trim. This line has been carefully designed to meet specialized institutional needs and incorporates such useful features as: extra heavy duty cartridges, interchangeable for fast, easy, maintenance; colour-coded index buttons; special Tee Handles for the aged and arthritic; smooth styling for ease of cleaning.

The new chrome-plated ABS faucet is the first of its kind in Canada and is the result of extensive research and design effort. It is made of tough ABS thermoplastic, moulded by Emco's Plastic's Division, and was introduced to the market in the spring of 1968. The rigid plastic is chemically inert and, therefore, non-corrosive. This represents yet another innovation of this growing and diversified company, which continues to develop new products for its markets and new markets for its products.



...with a new look

In addition to graphically illustrating the product, Emco's new package design also provides immediate company identification. Functionally designed to aid the mechanical contractor, the packaging separates the roughing-in pieces used in the early stages of construction from the chrome-plated fixture trim used at a later date.

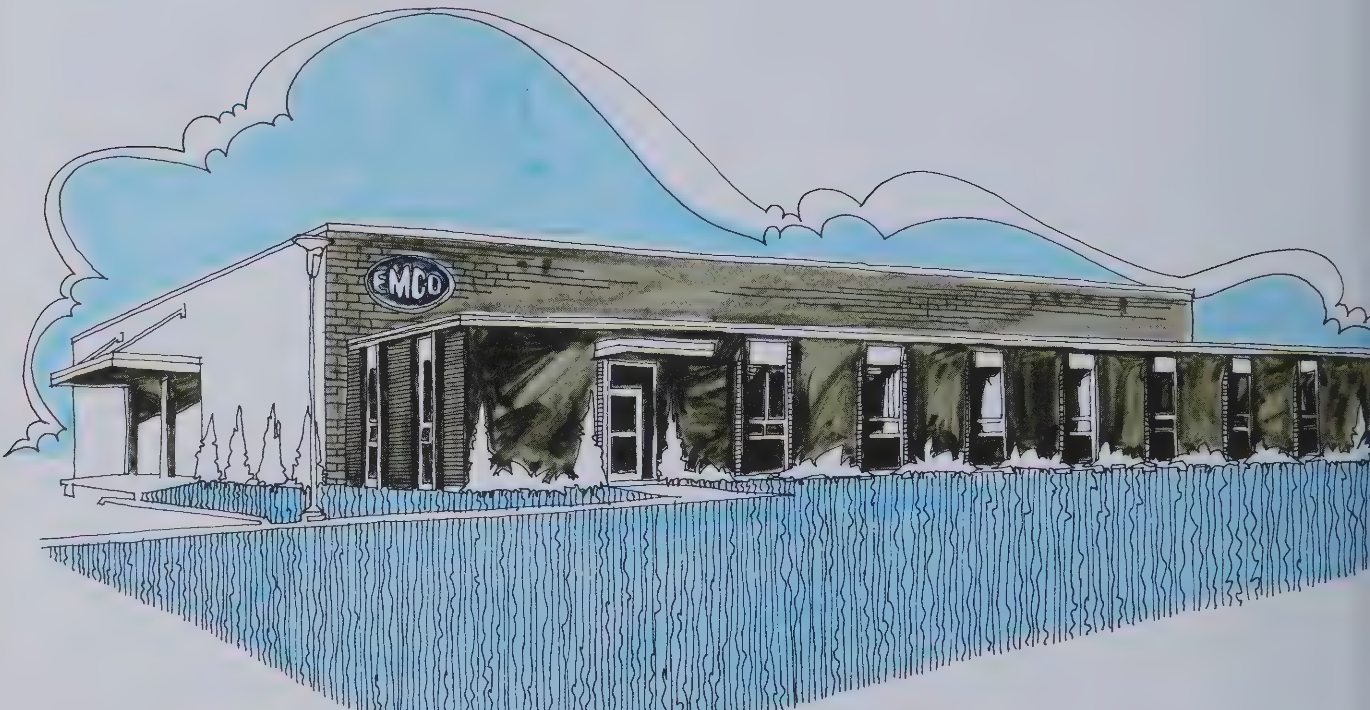
The package design is being utilized for other chrome-plated product lines, resulting in a family resemblance of all the company's packages. Since they lend themselves to the duplicate use of other products in the same size box, the packages contribute to greater economy and efficiency.

...with new methods

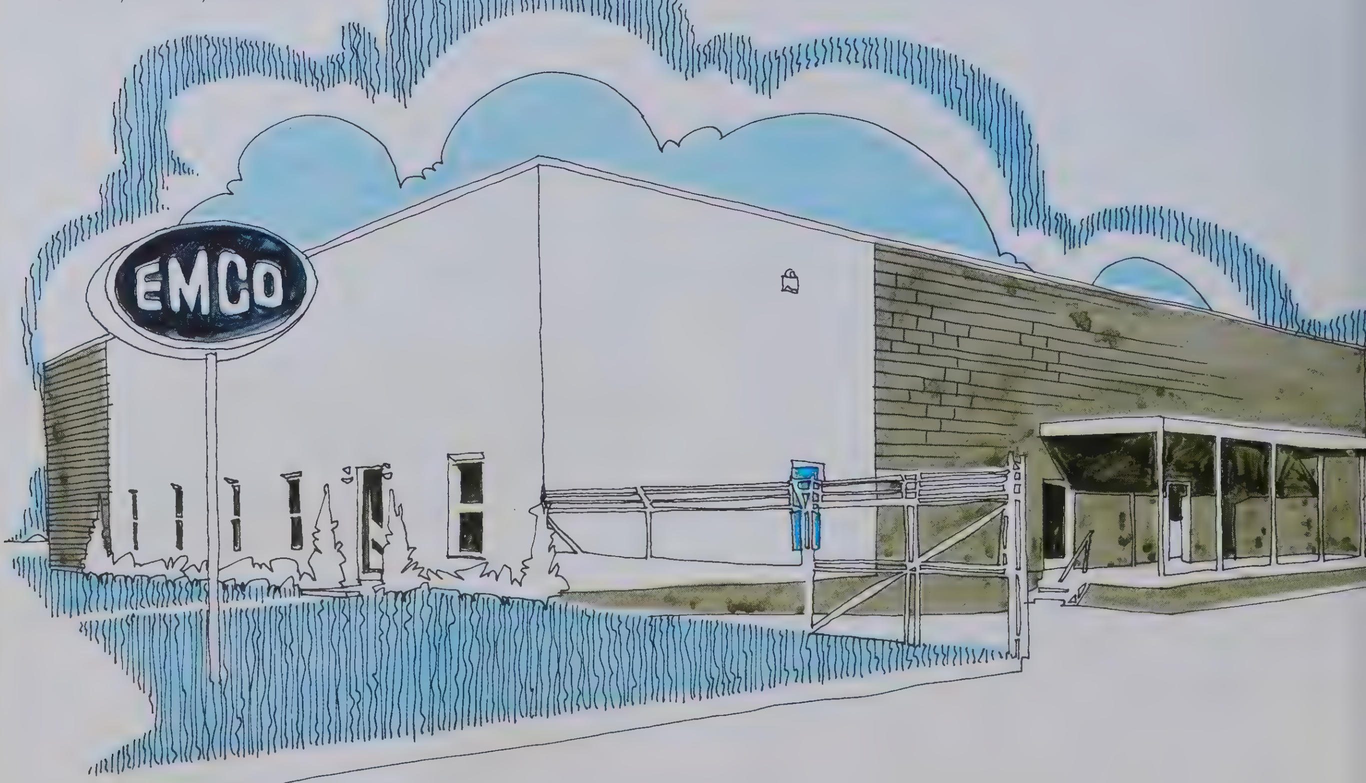
As part of a continuing effort to obtain greater efficiency and lower production cost, the company recently instituted a "Value Analysis" program. This technique is used to find an alternate way to provide a function at lower cost without sacrificing quality. Teams of five personnel from various departments are assigned one particular product to investigate. As a result of this program, many worthwhile recommendations have been implemented.

The company has also introduced a Methods Improvement Program. This program encourages personnel to examine critically, plant and office operations and to propose improvements. It has proven most successful in its first year of operation.

Around the corner



Ottawa, Ontario, Branch



Regina, Saskatchewan, Branch

New Branches

During the year the Ottawa wholesale branch moved to new premises on a 4 acre property. Located at 535 Coventry Road, the new branch has 6,000 square feet of office area and 18,000 square feet of warehouse space.

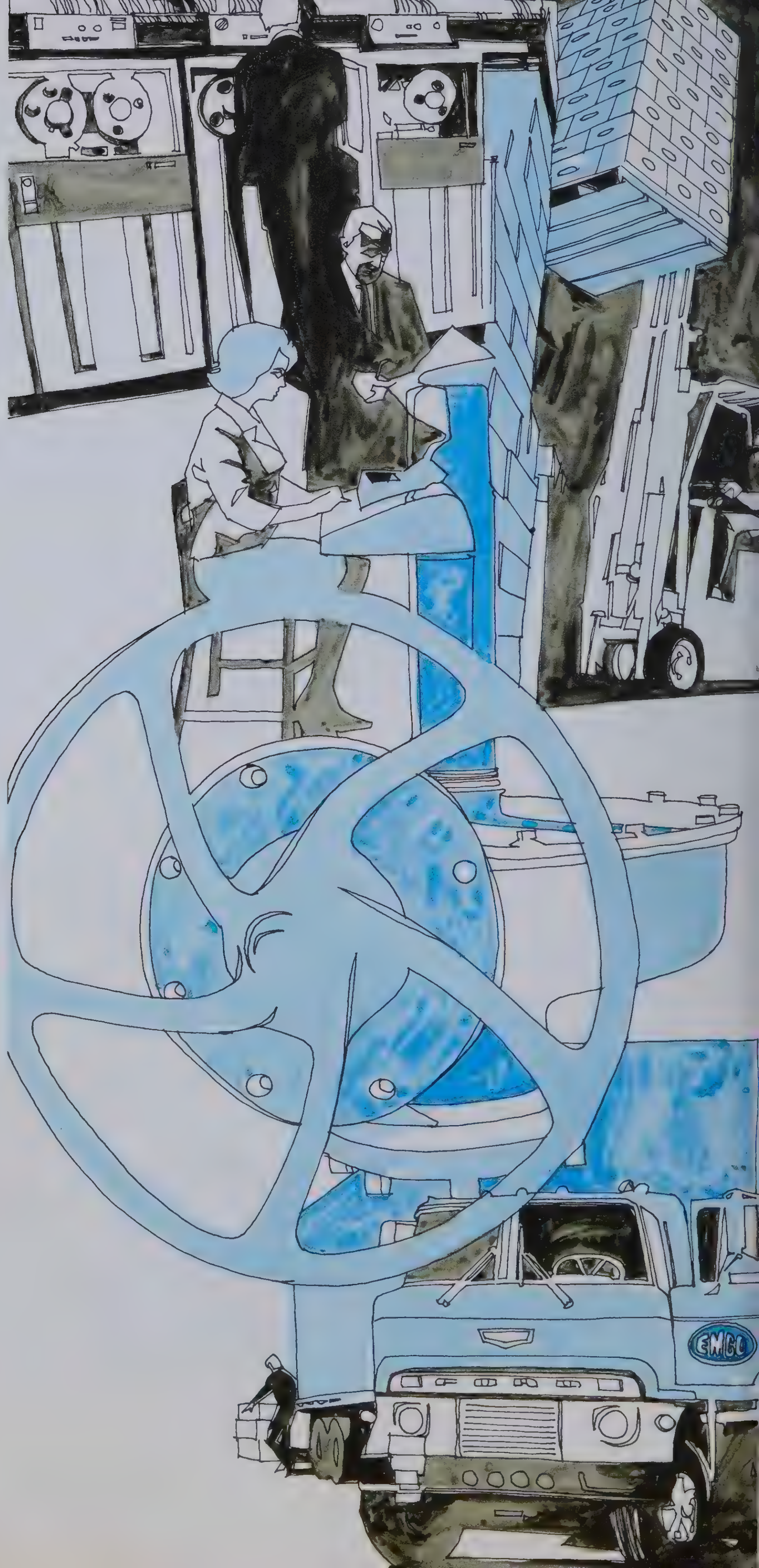
Regina Branch, one of the Wholesale Division's 28 outlets across Canada, has recently completed a move to a new home in the Ross Industrial Estate area. The move came after four years and six months in their old location on St. John Street, and was the result of a growing need for larger and better facilities to serve customers.

Situated on 2¼ acres of land, the new branch now has 12,000 square feet of warehouse and office space. Pipe handling operations in the yard area have been automated with the addition of a mobile yard crane.

In Kitchener, the warehouse has been enlarged from 7,890 square feet to 15,000 square feet. In addition, the company is planning further expansion in Toronto.

During 1968, the first steps were taken to establish a new sales and service operation to provide a fully integrated service and supply of quality engineered fluid handling equipment. Part of the overall Emco Wholesale Division, the new Wheaton Department will market its engineered industrial products to aviation, petrochemical, beverage and other industries.

Kitchener, Ontario, Branch



The value added concept of wholesaling

One of the most important factors in determining the value of goods, apart from their actual manufacture, is their distribution. This factor adds a value to a product by providing it to the purchaser at the time he wants it, where he wants it and by giving him possession ready for use.

Emco has developed its warehousing operations based on the concept of this added value. It gives the operations a positive, profitable impetus, that ensures value and service and thus increases sales.

This value added to products results from assembling goods in a central convenient location, having it ready when needed, packaging it in convenient forms, keeping up-to-date inventory to match volume and quality of demand. These operations and many more are designed to increase the value and merchandisable potential not only of Emco products but also of the 20,000 other products distributed by Emco.

In the United Kingdom

The huge 16 inch Marine Loading Arm has been a significant achievement in the handling of fluids. These loaders are hydraulically powered and capable of transferring a supertanker's fluid cargo at rate of up to 4,000 tons an hour.

The U.K. operation is now supplying Marine Loading Arms ranging from 8 to 16 inches and plans are underway to construct even larger units for tomorrow's supertankers.

Emco Wheaton U.K. Limited continues its steady growth and expansion. During the year, a separate service training department was established to provide customers with improved sales and maintenance service. The manager of this department trains Emco Wheaton staff, overseas agents and customers in new technology associated with the latest equipment being marketed. Two resident Emco Wheaton engineers supervise installation and commissioning of new hydraulically powered large bore loaders.

A further step in the planned program of increasing efficiency is reflected in the installation of a computer at the Margate plant. Used in the control of production and inventory and other administrative operations, the computer also serves a wide range of management-control and new cost-procedure applications.

In the United States

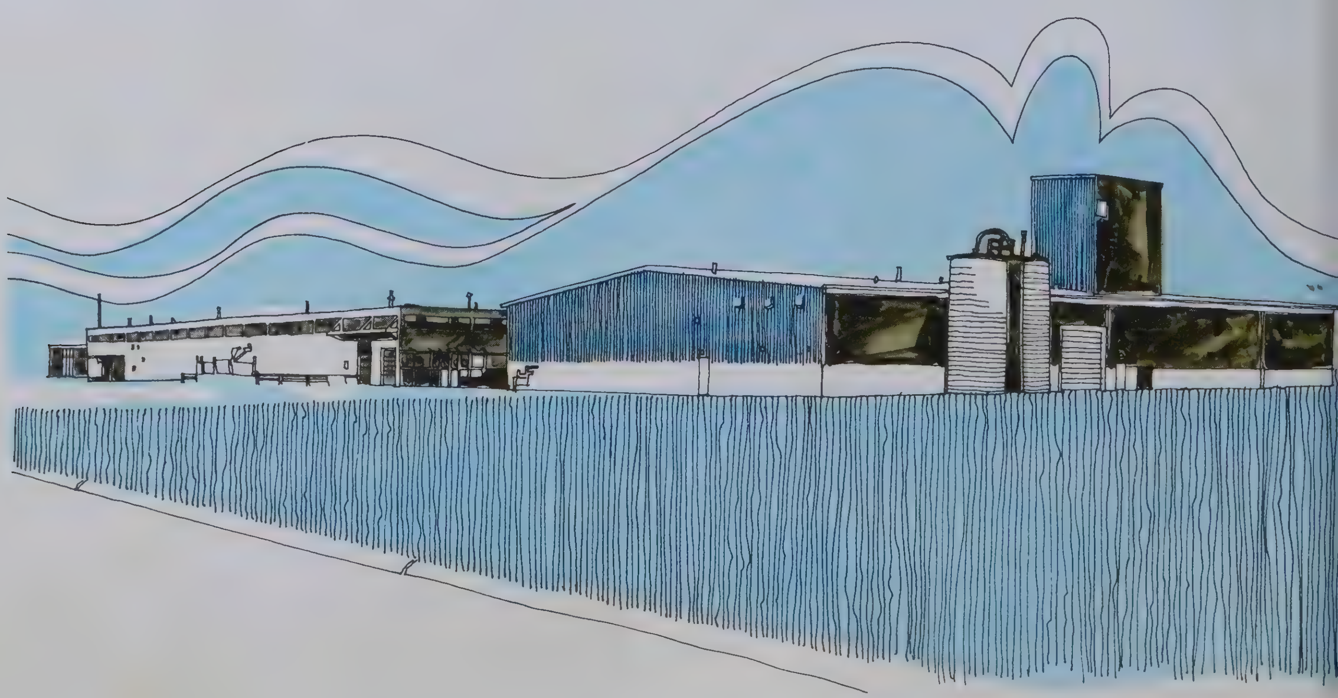
NEW MARKETING ORGANIZATION

A major development in the United States during 1968 was the establishment of a new marketing organization integrating both the Buckeye and Wheaton Divisions of Emco Wheaton.

Engineered fluid handling equipment systems of both plants will now be marketed by a single sales force throughout the United States.

NEW FOUNDRY FACILITIES

The new foundry facilities for the Conneaut, Ohio plant, which were planned in 1967, went into full operation in 1968. The new foundry consists of nearly 20,000 square feet of floor and mezzanine space. This, coupled with additional equipment as required, is expected to service the growth requirements of the business during the next five years.



NEW PRODUCTS

A new underpump emergency valve of simplified and improved design was introduced in 1968. This valve will shut off fuel flow at the service station island pump in the event of fire or impact. Appropriately named the Mini-Valve, this cast iron and brass unit is much smaller than prior Buckeye or competitor units and features improved flow characteristics. It has already been approved by virtually all major oil companies in the U.S.A.

In Australia

Wheaton Australia Pty. Limited, an Emco subsidiary with plant facilities in Sydney and Melbourne, is involved in the manufacture of high quality hatch assemblies (below), nozzles, loading systems and special portable pumping units for tank truck and fueling operations. With one of the highest standards of living in the world, Australia continues to offer a large potential market for Emco products.

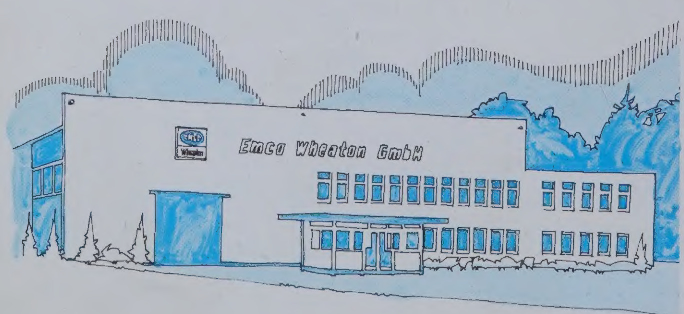
In Germany

Emco's German subsidiary, Emco Wheaton G.m.b.H., has recently completed a rebuilding and extension of the factory and office areas in a continuing effort to serve the growing engineered fluid handling equipment market more efficiently.

The new office addition will afford a greater working area for the production control and engineering design departments and will provide better recreation/cafeteria facilities.

The new factory facilities will enable Emco Wheaton G.m.b.H. to serve the European Common Market, in view of the increasing demand for larger automatic fluid transfer equipment.

Emco Wheaton G.m.b.H. is now manufacturing certain parts formerly imported from sister companies and the new addition will help accommodate these changes.



In Japan

An ancient Japanese ceremony, conducted in the finest Shinto custom, marked the official opening in November, 1968, of new manufacturing facilities for Emco Wheaton (Japan), Limited. First established in January of 1967, the company manufactures a complete line of petroleum handling equipment ranging from emergency vents to 12 inch marine loader systems recently installed on the docks at the new Fuji refinery shown below.

The new plant facilities will allow for increased production of Emco Wheaton engineered fluid handling equipment and the continued growth of Emco's activity in this thriving Japanese market.

A new international symbol

A new corporate symbol has been designed to provide an attractive and immediate visual identification of Emco's international engineered fluid handling equipment division. The new look incorporates the best of both names and has been selected to represent the modern, dependable and progressive characteristics of the Company.

Like the craftsman's hallmark of old, corporate symbols such as this represent the workmanship in the product; and in the crowded communications world of today they also project a personality and character which works silently to back all the Company's activities.

The new Emco Wheaton symbol provides immediate identification for the plant at Margate, England and all other subsidiaries.


EMCO